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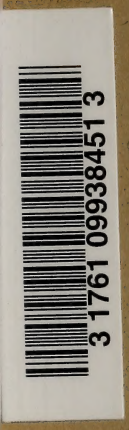


Cash, Panics and :: Industrial Depressions

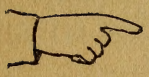
A DEFENCE of The Independent Treasury

C. T. Libby III

PORTLAND, MAINE, U. S. A.
1907

Cash, Panics and Industrial Depressions

A DEFENCE OF THE INDEPENDENT TREASURY; A SAFEGUARD AGAINST BANKERS' INFLATION; A PLEA AGAINST BANKERS' CONTRACTION



Let Germany try out credit currency before we abandon the Independent Treasury

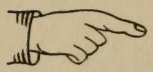
BY

CHARLES THORNTON LIBBY

PORTLAND, MAINE, U. S. A.
1907

This is the first argument ever put out for checking inflation by suspending the free coinage of gold.

A second edition of this pamphlet will be printed for the purpose of annexing to it such comment and criticism as it may arouse, and will be sent to all commentators and critics.

 Names are requested of persons who might be interested to offer criticism, to whom this pamphlet will be sent.

Address: *C. T. LIBBY,*
PORTLAND, MAINE, U. S. A.

CASH, PANICS AND INDUSTRIAL DEPRESSIONS.

In this paper the word *cash* is used to meet General Walker's definition of "money" with the addition thereto of "cash in bank." As *money* is by some considered too narrow a term to cover bank notes, and as *currency* is by some deemed broad enough to cover checks in transit, thus leaving no universally accepted term to mean just what business men mean by "cash," and as it seems almost a crime against humanity, in a question so near to the weal or woe of the people and in which systematic writers so radically differ, to permit added confusion by a mere lack of concensus in definition, I submit that "cash" ought to be elevated to an economic term and left sacredly untampered with as in practical use by the English-speaking business community, notwithstanding that it presents some intricacies inseparable from business itself.

For instance, a merchant receiving a remittance by bank check credits it on his cashbook as cash and it is duly credited on his deposit book along with his money deposit, and usually nothing more is ever heard or thought of it. But if the check comes back marked "No funds," thereupon is the difference acutely visible between cash and a check. The check was accepted merely as a mode of remitting the cash. "Remit by check, draft, money order or registered letter" is the printed instruction on many invoices. The maker's signature was taken to imply that the cash would be at the bank when the check arrived, and if this proved false it furnished, at the least the basis for an action of contract, very likely an action in tort, and in some instances a ground for criminal prosecution. The merchant accepted the check and mailed the receipted bill on the assumption that by due course of mail and clearings, either by offsetting like remittances going in the opposite direction or, if necessary, by the actual shipping of the cash by express between the two cities, the cash would be transferred from the bank checked against to the bank of deposit. Any ground of suspicion that the check might not be "good" would likely have occasioned a telegram to the bank checked against, and the answer might not have been either yes or no, but "doubtless will be when it arrives"—that is, the bank checked against might telegraph merely the opinion that the maker of the check, having drawn the check, would bring the cash to the bank to

be there before the check was. How often has a man been held in conversation while beyond his hearing but probably within his ken the bank checked against was saying by wire or 'phone whether a check would be "cashed."

Another intricacy is that "cash on hand" and "cash in bank" appear on many merchants' books in a single item, although each merchant knows that *his* "cash in bank" is not his only own but also many other merchants' "cash in bank," since the bank lends the surplus deposits of all depositors to the different depositors according to their seasonable needs. Nevertheless every merchant in making his deposits acts on the profound assurance that his "cash in bank" is there only for safe-keeping and for convenience in making remittances, and can be drawn out instantly; a shadow of doubt as to a bank's retaining at all times sufficient cash to pay all depositors all the cash they want instantly they want it results in transferring deposits to other banks.

Panics I have put in my title, although these are but the comparatively uninteresting denouement of the intensely important phenomenon of rising price-level index-numbers. The panic bears the same relation to a general rise of commodity prices that the funeral bears to a strange and terrible desease for which the doctors have prescribed directly opposite remedies. A subject which has engaged my thoughts and sharpened my observations during many years is the relation of rising and falling index-numbers to "cash."

In *Industrial Depressions* I recognize four constituent elements: (1) the catching up of consumption with production following a period of over-trading under the inducement of rising commodity prices; (2) the getting back to the soil of the people tempted away from the production of necessary food supplies by offers of high wages from mills engaged in over-production under the inducement of rising commodity prices; (3) the period that marks the devouring of the weak by the strong—the passing of equities; (4) the attitude of merchants and manufacturers, because the profits of waiting are greater than the profits of doing business, delaying their orders for goods or raw materials from month to month, possibly from year to year, until falling prices shall reach their lowest point. But I am chiefly interested in the last named element (4), which appears to constitute the wickedest exhibition of wasted resources, crucifixion of humanity and backset of civilization possible for an enlightened age to contemplate. We have been appalled at the aggregated

loss of a labor strike in one industry; what then of the loss from the stagnation of all industries while the masters of industry sit waiting until cash shall have stopped appreciating! The annual product of industry in the United States is over fourteen billions, the annual interest payments less than one billion.[1] How insignificant the latter compared to the former; especially when we bear in mind that the former provides the fund out of which the latter is drawn; and how heinous to prolong an era of falling prices by efforts to keep up interest rates year after year![2] "Too much money," said the bankers in the middle Nineties, when a bushel of wheat could get but 49c, a pound of cotton only 5½c, a pound of copper but 9c, and a million men were offering their labor at any price to keep from starving. "Not enough currency to meet the demand," said most bankers recently when it took $1.05 to get a bushel of wheat, 13½c to get a pound of cotton, 25c to get a pound of copper, and when manufacturers declared that labor was not to be had for money. Money to buy with ($14,500,000,000 annually) is eclipsed in the eyes of most bankers by ($850,000,000 annually) money to lend.

I have dragnetted Prof. Laughlin's *The Principles of Money* in the effort to synthesize it with my own observations of actual business; nor do I tender apologies for thus testing it, remembering the schoolboy axiom that the whole of a thing is equal to the sum of all its parts, and never losing sight of Adam Smith's controlling principle that the economic law is the cumulation of every man's pursuing his own. Prof. Laughlin appears to have beggared his whole argument when he says (page 337, my italics):

1 Several attempts to find competent estimates of these totals having failed, the writer has footed up roughly, but accurately enough for present purposes, the statistics in the *Statistical Abstract*, the Report of the Comptroller of the Currency and the *Statesman's Year Book*.

2 A complete wiping out of the annual interest account would only be equivalent to a reduction of seven per cent. in the annual product of industry. We must allow the bankers to leave out of sight the fact that a loss of interest is not an intrinsic loss, i. e., not a reduction in the country's total wealth, but they may yet consider how much better it is for themselves, as well as for the people at large, by a sharp reduction in interest rates to check a business recession in a few months, than to try (vainly) to keep up interest rates by contracting the currency, and extend an era of falling commodity prices for years. Better a 1 per cent. discount rate on prime mercantile paper for a short time and then normal rates, than a 3½ per cent. rate continuing year after year.

In *legitimate* banking, loans are made because of satisfactory collateral or actual transfers of goods, and *not* merely *because reserves are high.*

Why is a man offered a princely salary to attach himself to a bank? Because it is believed he can increase the deposits. And how will the bank recoup themselves of this salary? By lending the deposits. And where will they stop in lending the deposits? At the point where the *law* (or in panic times their fear of withdrawals) compels them; and in many instances "between calls" not there. Bankers are not in business for their health. In their annual conventions, very true, they exalt their calling, their power in the community and their moral responsibility, but in their reports to their stockholders they exalt their dividends and surplus (not *reserve*) profits.

Professor Meade's recent suggestion in his address to the Pennsylvania Bankers' Association that the banks shall accumulate in their reserves in the spring the deposits which their depositors will require to move the crops in the fall was met by a leading bankers' journal as follows (my italics): [3]

Does the professor know that the country banker during the time he does not need the money to finance the crop movements, and has no demand at home, sends his money to his New York correspondent with instructions to loan it on the New York Stock Exchange, and in that way encourages a period of over-speculation? Does he know that when the country banker wants his money that the New York bank has to get it for him and finance the loan themselves? It is good talk to suggest that New York banks pile up a surplus of $75,000,000, but when they are paying 2 per cent. interest on balances from country banks it is necessary to keep the money in use in order to keep their own doors open. We fail to see why a bank in New York or elsewhere should keep idly in its vaults an amount of money so much above *legal* requirements. Banks are not philanthropic institutions, but are formed for the purpose of making profits.

Nor is this view unnatural on the part of a voluntary association of stockholders for purposes of private gain. The hope that bankers purely on grounds of public policy will retain their deposits in their vaults instead of making safe loans at high rates is fatuous; they will do this only so far as strict provisions of law, enforced by the officers of the law, compel them. This is not disproved by the Bank of England keeping about half their deposits in reserve, though a stock company for private profit, because the enormous profits accruing to the stockholders by the Bank's relation to the

3 *The Financial Age*, September 16, 1907, p. 668.

British exchequer overbalances the other consideration and makes the Bank's management merely an exponent of the Government's policy. The exalted duty of guarding the community against abnormal credit inflation is *par excellence* a government function, and the power cannot be otherwise than rashly delegated to private individuals whose profits, in a period of inflation, participate in those of other lines of business swollen to speculative excess.[4]

Mr. Laughlin freely admits that abnormal credit inflation by bank loans tends to raise commodity prices: "legitimate" banking, as defined in the quoted passage, is his dependence for safety from abnormal credits when new gold is deposited in the banks. That is, he calls into existence, in order that they shall perform a strictly government function of safeguarding the public without compensation, a kind of bankers such as nobody ever sees. For every banker knows that immediately increased deposits swell the reserve, the first thing to be done, if the banker knows his business, is to *place* the surplus, with their own customers at going rates if wanted, otherwise at the highest rate at which it can be put out safely elsewhere. If the time has come when bankers retain their funds because they consider nobody safe, that is too near the sound of the knell to be worth considering. When that point is reached the harm has been done.

Professor Laughlin's analysis of over-centuries changes in commodity price-levels doubtless discloses the truth. His simplest statement of it is this: [5]

> The general outcome has been a race between the effects of a lowered cost of obtaining gold, and a lowered expense of producing goods in general, in which the latter has won.

But while this grand advance of human civilization moves once, there is time for many to-and-fro movements of Mr. Bryce's inevitable "oscillations in trade;" likewise time for Congress to start an

4 The bankers' temptations are either to encourage an era of rising prices, where borrowers cheerfully pay high rates, or an era of enforced contraction, where borrowers compulsorily pay high rates. A period of steady prosperity, free from either speculation or liquidation, tends toward fixed capital, and is not an occasion of maximum banking profits. The general government, charged with the welfare of the community as a whole, cannot afford to ignore fundamental natural tendencies when a question of delegating its powers is under consideration.

5 J. L. Laughlin, *The Theory of Money* p. 361

upward movement by issuing greenbacks, a downward movement by the redemption acts, an upward movement by the Bland silver coinage act, a downward movement by the repeal of the Sherman act, an upward movement by unlocking United States notes in the Spanish war disbursements, a still upward movement by the $25,000 National Bank act, a still upward (executive legislation) movement by Secretary Shaw, until we arrived at the situation with which Secretary Cortelyou is now struggling.

The effect of new gold from the mines brought into a country is particularly worthy of attention by American economists, and any lack of agreement among them especially regrettable, from the fact that in our independent treasury system we have not only the means of artificially duplicating the effects of introducing new gold, but also of artificially bringing about a contrary effect. The effect of segregating ten million dollars in the National vaults is the same as if it were restored to the bowels of the earth—except, of course, that it can more readily be brought out again. Once determine the beneficial or harmful effect of a too great or too small production of gold, and it will no longer be necessary to leave industry and commerce at the hazard of gold mining, since the Independent Treasury, by sequestering gold (or United States notes) during a mining boom, and letting it out again during a diminished supply, can accomplish artificially and systematically whatever will best promote stability and prosperity.

Of course this is very different from the position favored by Prof. Dunbar and Prof. Laughlin, merely to legislate gold as the standard and then let nature run wild. In general the mode of advancing civilization has been to harness the laws of nature to human service. Because a thing is according to nature is far from proving that it is well. *Laissez faire* is a good dog—he guards his master's home, whether his master be a good man or a bad one. The robber barons of the Rhine acted strictly according to nature. Commerce traversed their domains according to the terms by the rulers thereof laid down, and attempts at smuggling were penalized then as now. Merchants adjusted their profits to meet the expense and risk attending the transportation of their goods. The petty monarchs along the pathways of commerce asserted the same rights that their noble ancestors had asserted from earlier ages and maintained them in the same way—rights vested in coat armor. The livings of these barons, their only means of support, was equitably distributed upon the con-

suming public, and conditions automatically adjusted themselves thereto. Here was nothing but accorded perfectly to nature, the nature of mankind—human greed. But civilization progressed a step by making the robber barons of the Rhine a story of the dingy past.[6]

Every making or marking of a price from time to time, and cumulatively all makings and markings of prices, includes at least four elements: the nature factor—drouth, flood, earthquakes; the occasional (which sometimes takes the form of the *emergency*) factor—great fires, the depletion of wars and warlike preparations; the "oscillations of trade" factor—the length and power of the oscillations depending on other factors; and the cash factor. All of these elements occupy the attention of good government—irrigation, forest preservation, fire protection, international justice, safe banking laws; but the *cash* factor, if not the creature of, is at the least quite at the mercy of, legislation.

Gold in the United States meets three demands—(1) for the arts, shared with silver, gems, etc.; (2) for exchange, this demand shared with wheat, cotton, etc.; (3) for cash, this demand shared with coined or certificated silver, (United States notes and National bank notes. Thus gold exerts an influence in (2) diametrically opposite to its influence in (3). In (2) exchange, both sterling and inland, increasing volumes of gold, wheat and cotton work a parallel influence, an increase in either tending to lower the demand for all, a decrease to raise, while in (3) an increasing available volume of gold works a directly counter influence to an increasing volume of wheat and cotton. In order for the supply of gold, cotton and wheat to work a parallel influence in (3), either the supply of gold must increase while the supply of cotton and wheat decreases, (both movements tending to make gold buy less cotton and wheat), or the supply of gold must decrease while the supply of cotton and wheat

6 Prof. J. S. Nicholson after describing the Tulip Panic of the seventeenth century says: "Nor can we suppose that in the course of two or three centuries there has been a fundamental change in human nature; so far as human nature is concerned, a South Sea bubble might begin to-morrow; the elementary passions are as strong as ever, including the love of gain and the love of gambling; probably, indeed, so far as the mere desire or the mere greed is concerned, the passion is at present stronger than in many former times when speculation became rampant." *Bankers' Money*, p. 77.

increases, (both movements tending to make gold buy more cotton or wheat). In (2), gold, cotton and wheat are all thrown together into the same pan of the *exchange* scales, while in (3), gold is thrown into one pan, cotton and wheat into the other pan, of the *cash* scales.

While helping to explain the overwhelming ruin that follows a loss of confidence of depositors in banks or of bankers in mercantile paper, (the tendency to divert business from (2) to (3) throws upon cash a sudden and abnormal increase in its dealings with commodities), these considerations also bring into view the intricacy of the whole subject, an increase in gold tending both to raise and to lower the price of articles of export, and an increase in the cotton crop tending both to increase and to decrease the demand for gold.

Critics of the quantitative theory are doubtless right in saying that it is incapable of being reduced to a formula. Starting with the unquestionable impulse of cash in the direction of bulling prices, ("Money burns in the spendthrift's pocket;" "Money makes the mare go:" [7] "I've fifteen dollars in my inside pocket:" "Excessive revenues encourage reckless expenditure of the public moneys"), the next step is that "cash in bank" has the same potency as cash in hand. But not only are we confronted at this point by the fact that the ratio of everybody's aggregate "cash in bank" to the cash actually in the bank is a most unstable one, but the next step leads us to the fact also that the price bulling effect of cash in bank has a relation to bank discounts. A merchant with $2,000 cash in bank and his note for $4,000 due to-morrow is not encouraged to ready buying by his cash in bank but discouraged by his lack of it. The next step brings bank loans to bear back on cash on hand. Great price concessions are necessary to sell anything to a merchant who has $2,000 in his tills, little in bank, and his note for $4,000 due to-morrow. And the next step brings the greatest complexity of all. Borrowed cash in most men's hands is electrically supercharged, as it were, with apprehensions against the day of re-payment. But in some men's hands it presents a situation of "Something to gain and

7 These proverbs of mankind are very real. This factor of ready money touches the whole gamut of human temperament, from the highest courage to the lowest despondency. The first thing the police and reporters want to know on finding the body of a suicide (after the name) is whether he was without money. The writer has witnessed the most sudden and even grotesque shifting of merchants' judgments regarding purchases and values due merely to the temperamental effect of changes between abundance or scantiness of ready money.

nothing to lose."[8] Thus we are led up to the necessity of a formula covering human morals—an impossibility.

But because anything akin to a mathematical or chemical formula is impossible, it does not follow that the situation is beyond human aid. If no more be maintained of the quantitative theory than that an increase in cash tends to increase commodity prices, a decrease to decrease, human government has there a remedy for what is evil in rising and falling price-levels.

The greatest and most sudden decrease in cash possible to happen has an effect on commodity prices so spectacular as to be impossible of mistake. A run on a bank, no matter how solvent, if sufficient to close its doors, turns all but a few depositors' cash into mere choses in action. Their necessary measures to recoup their position, cancelling orders, abandoning plans, forcing collections, forcing sales to raise money to meet obligations for which their cash in bank was held, all tend to bear prices of everything salable for cash. Besides, the effects multiply by geometrical progression. To replace the vanished "cash in bank," the cash reserves of other banks are drawn upon, leaving their depositors in turn threatened with the collapse of their available cash. Nor are these effects different in kind, only in quantity, from the effects of any movement that withdraws cash from the community.

Still again, irrespective of what *starts* rises and falls in the commodity price-level, once let a rising tendency of prices clearly assert itself and the situation is like the inception of an epidemic—spreads by its own motion. Eager to participate in the profits of the rise, men rush in, with their own and borrowed capital, and in very competition for the opportunity to speculate push prices upward, higher and higher; their profits meanwhile they spend in extensions or improvements, or luxuries, thus raising an abnormal consumptive demand for commodities, all aiding to intensify an era of rising prices which can end only in collapse and ruin. Likewise a movement of falling prices, once started, perpetuates and intensifies itself, feeding on its own vitals; business men suspend operations until prices shall have reached the bottom (who knows when that is reached?) and by their very waiting push prices lower and lower until ruin stalks abroad.

8 Recent insurance and railroad history shows that this latter tendency may find its human path into very high places.

Nor is it necessary to wait until the systematic writers shall convince one another (how long might we wait?) whether rising commodity prices cause an increased volume of money, or an increased volume of money causes rising commodity prices; for all agree that high and rising commodity prices are the invariable concomitant of abnormal credit inflation, thus placing us in the position of the physician who knows that a temperature of 107 means death, 103 danger, 100 some congestion and inflammation. The index-number is a reliable clinical thermometer to industry. Guy lines quite inadequate to sustain the weight may keep a huge mass in equilibrium although unstable. The physician possessed of the known antitoxin of a surely diagnosed disease can by its cautious administering, as conditions indicate, pull the patient safely through.

In my boyhood I amused myself by pushing down one end of a dory half full of water. Immediately the water would rush to that end and pile up until the gunwale was under water, the water inside higher than outside, and the other end of the boat sticking up high in the air. Then the water would rush back and pile up at that end of the boat, the first end rising high in the air. On a calm day I would come back hours later and find the movement still going on, the water flowing back and forth from one end of the dory to the other. Later I got so that I could jump into the middle of the boat, that is, near the middle. As the water started for one end I would start for the other end, and just before the water started back I would start back. I could move quicker than the water and so bring it to an equilibrium. Certainly this rushing of water back and forth was the workings of natural laws: but a boy could start it, and a boy could stop it.[9]

Funds of the Independent Treasury now deposited with national banks amount to $168,357,113, the quick withdrawal of which would send the entire business superstructure crashing into the cellar. On the other hand, the free cash now[10] in the Treasury, if all quickly deposited in the banks, as private deposits are made, without specific security, would change the present reactive tendency into one of further inflation. Between such stupendous extremes of power, is

9 If when the water was rushing toward the stern of the dory I had rushed the same way, and when it rushed toward the bow I had rushed that way, I should have done what the Cleveland administration did when commodity prices were rushing downward, and what Secretary Shaw did when the buying value of the dollar was rushing downward. But I never tried this, although I could swim some.

it not conceivable how the Independent Treasury, cautiously watching business conditions, can help to keep industry on an even keel, tending neither to speculative disorganization on the high side nor to a waiting stagnation on the low side, provided only that it be wisely administered? The trouble seems to be that it has been administered from the bankers' standpoint of the lending value instead of from the industrial standpoint of the buying value of the dollar. Instead of trying to keep the commodity price-level stable, letting interest rates perform their natural function of rising to check a tendency to credit inflation and falling to check a tendency toward reaction, the object has been to try to keep interest rates level, with the result of driving the commodity price-level away from the normal, either upward or downward.

The truth of these views is irresistably borne in on me by my observations of actual business. Beginning a year before the panic of 1893 it has been my lot to visit retail merchants under circumstances making it my place to stand aside for commercial travellers, but at the same time free to listen to what transpires. And I have listened, with absorbing interest; watched, I may say, the very artery throbs of commerce at the point where production and consumption meet—the crucible where price-making is put to its final and conclusive test. The infinite variety of form which these occasions assume cannot be detailed here, but they all pivot on whether to hold off for a fall or to buy for a rise, the cash outlook as affecting the retailer's ability to buy or the jobber's ability to hold back his goods,[11] and in extreme situations the questions, whether the merchant can get the goods at all if he waits and whether the public will buy at the higher prices.

10 It should have been much larger, only for Secretary Shaw's extraordinary inflation measures a year ago. As it is, the free cash amounts to $64,305,460, most of which (*all* of it according to the views of the enemies of the Independent Treasury) could in a public exigency be deposited in the banks.

11 The present time affords frequent instances of this. Almost every issue of the *Journal of Commerce* reports some line of commodities forced out at falling prices by the necessity of the holders for cash.

I have observed:—

—The salesman, after greetings, glance seriously at the merchant and say, "I wanted you to buy last time." No reply from the merchant, no explanations needed. Both understand that he *must* order this time, and at higher prices. I have seen that merchant completely reverse himself; from ordering only for instant necessity order all he could use for a long time to come.

—The salesman lounge in, laughingly apologize for being on the road at all, make a chatty call without any allusion to goods, both his eyes and the merchant's glancing casually over the stock for anything that must be replenished to bridge over—no urging sales; prices would be lower.

—The salesman almost abbreviate the greetings to say, "They are going up; how are you fixed?" That did not mean for goods, but at the bank. The merchant accepted the drummer's assurance absolutely and ordered "for the rise" all his situation warranted.

Again I have witnessed a stump debate between the two on whether prices would rise or fall. The mutuality of understanding was perfect, the merchant would order or not at his peril.

I have observed the saleman say, (a side glance at the bystander showed this was not just straight with the house, although it strengthened the confidence of the merchant in the salesman personally): "I can sell you some things but for others you better get your bunch together and come down." That meant, that a considerable sum of instant cash in New York would tempt lower prices than the salesman could make.

And finally I have seen the saleman urgent, insistent, that the merchant should buy and buy heavily, and the merchant resolutely decline. Not that he doubted the salesman's judgment or good faith in any way, but against him interposed his own judgment that his customers would not buy the goods at the higher prices. "They will not because they cannot; their money will only go so far."

The retail merchant stands at the sluiceway where the rising tide of speculation reaches the public ability to consume—the spot where rising prices are turned back on their source, where overproduction deposits its accumulations.

The vast government statistical work falls short at this very point. The government ought to gather quarterly, and in critical times monthly, statistics of goods on the shelves and in the store-

rooms of retail merchants. Such statistics would be of great value in checking speculation and steadying industry. A manufacturer will not knowingly engage in overproduction. He will not raise wages to draw in new and inefficient help and run night shifts if he knows he must presently lay off his entire crew; nor will he tie up his capital in extensions that will be useless after a short run on goods "to hold for the rise," if he knows that later his entire plant must shut down while consumption catches up. Such a canvass would be invaluable at the present time.

An inflationist with Mr. Bryan in 1896, as were almost all commercial travellers at that time, in recent years I found myself changing to a contractionist. In November, 1906, I had printed in large type with red ink on yellow cardboard and mailed by the Boston Mailing Bureau to all members of Congress and others, the following danger cry:

For heaven's sake stop Shaw's inflating the currency on a rising price index. He's but licensing drummers to book orders for industrial stagnation. The dollar is growing cheaper every month, yet he inflates the currency.[12] We already have the 60c dollar Bryan wanted in 1896—that's cheap enough; stop Shaw. The interest rate is the specific safety valve—our only safeguard from expansion, explosion, collapse, stagnation. Stop Shaw's screwing down the safety valve! See Bradstreet's of Nov. 10, (Price index Nov. 1, 8.7409; Oct. 1, 8.5480; Nov. 1, 1905, 8.2097; July 1, 1904, 7.6318; July 1, 1896, 5.7019; Jan. 1, 1892, 8.1382). Money is the cheapest since greenback days. 8.3333 is cheap enough. He should contract the currency, but for heaven's

[12] The following telegram ("An alert populace" etc.) was sent to the President March 28, 1907:

"Incompatible with public good to declare financial policy, except it be to keep the value of the dollar stable. Nation confronts consequences of the two hundred million annual currency inflation. Those demanding more inflation reason in circle, namely: Our present inflated currency is insufficient to meet the universal demands for borrowed capital caused by our present inflated currency. Further inflation can only intensify trouble. Treasury should husband resources until the commercial break, and not find itself helpless when the time comes to combat falling commodity prices and industrial suspension. Reaction and recovery must be completed before next election."

sake stop Shaw's inflating the currency until the price index turns downward.[13]

My reasons for such a state of mind did not reach beyond the facts of the index-numbers as quoted, the fact of a 212 million annual currency inflation following an almost equal inflation of the year before, and my observations among retail merchants in one minor city. Developments since that time indicate that I was observing the true symptoms.

The idea that an era of rising commodity prices is bad is capable of being strongly stated in terms:

(1) It draws people away from the land only to turn them adrift without means of support; it draws men away from occupations that might be permanent to work that is sure to be temporary; it tends toward a reversion of the human race to a nomadic existence —turns back the hands of progress on the face of time.

(2) It impairs judgment of expense; promotes extravagance and waste, both in business and in family and personal expenditures; sets up false standards of the scale of living; subverts habits of thrift.

[13]Undoubtedly the price index has now turned downward. Under date October 1, 1907, the following was written to Secretary Cortelyou:—

"I still say that "8.3333 is cheap enough," *BUT* there is danger of a period setting in of commodities speculation on the down side (*i. e.*, industrial stagnation). Bradstreet's July 1, 9.04; Aug. 1, 8.92; Sept. 1, 8.82. Dun's weekly tables show the movement continued. If Bradstreet's Oct. 1 shows a rise it will be caused merely by foods. Iron, steel, copper, cotton, all except wool, lower. If this movement gets going too fast it cannot be stopped. Two months down and one month up until commodity prices reach normal is all that is safe. Harper's Weekly is being copied by Democratic papers and others, that the President, having started the downward movement, cannot stop it. This is dangerous and the resources of the Treasury should be strengthened. Arrange all the preliminaries for a four-cornered simultaneous movement—Panama bonds out of the Treasury and in again, cash into the Treasury and new National bank notes out.

"Nov. 1 ought to be made to show a distinct rise in the index. Give the mercantile banks plenty of money. There is NO danger now of commodities speculation for the rise—funds will be used simply to safeguard prior commitments and prevent an impetus downward. (Believe me I have no axes to grind, I simply don't want to see another 1873-79 or 1893-97.)"

(3) It changes channels of trade that might be permanent into mushroom commerce certain to be annihilated, leaving industry prostrated for the lack of communication between the members of the community in their dual capacity of producers and consumers.

(4) It leads inevitably to one of two things, whichever may come first, (and probably to both), either to distrust on the part of depositors in the sufficiency of their bank's reserve or to industrial overproduction, in either case stopping business and industry.

(5) It lays the foundation for an era of falling prices.

The two overwhelming calamities to industry are bankers' panics and prolonged periods of falling commodity prices, to both of which an anterior condition (to save argument we need not say *cause*) is found in rising commodity prices.

Rising prices do not constitute prosperity. Prosperity does consist in a highly developed network of inter-communicating channels of commerce, broad and deep, pruned. of wild offshoots and compelled to grow in the direction of solidity, strengthened by age, replete with the multiplied ramifications of permanent trade, fed by and furnishing the outlet to all the products of all mankind producing to the best advantage, in life-long callings, developing all productive arts to the point possible when conducted under known conditions, the whole system supported by adequate capital at all points, fortified by tradition, immovably grounded in public confidence, panic-proof. The human race has yet to learn what it can do under permanent conditions, without having its industrial structures thrown down and starting all over again every few years.

Instead of letting prosperity swell up and burst, I do not hesitate to favor radical legislation to retard rising commodity prices, and absolutely to stop the rise before it reaches panic conditions. We need changes in the law controlling bank reserves, by which, when index-numbers reach a point equivalent to Bradstreet's 8.9100, banks shall be compelled to add to their normal reserves 1 per cent. of the amount of their deposits; when equivalent to 8.9200, 2 per cent.; 8.9300, 3 per cent., and so on.

This flies squarely enough in the face of the movement for "credit currency," which fashionable folly only points the recklessness of the latest abnormal credit movement. National banks are permitted to loan the full amount of their capital and surplus, and from 75 to 94 per cent. of their deposits, (9 or 10 per cent. to other banks), and the remaining 6 per cent. may not be cash in their vaults,

but may include the 5 per cent. of their circulation deposited beyond reach in the United States treasury and certificates for clearance house funds. How slender, then, the provision which the law requires bankers to make against a possible run by their depositors, and how reasonable that, as commodity prices rise and the business atmosphere becomes supercharged and conditions ripe in which depositors are liable to lose confidence in the ability of their bank to produce their cash when wanted, this meagre reserve shall be gradually increased! In periods of business depression and falling commodity prices the law for bankers' reserves might be repealed and not missed. It is in times of rising prices and swelling speculative demands that the need arises for reserves, and the higher the index-number rises, the greater the need.

How much greater wisdom at such times to increase the reserves for the greater assurance of the depositors than to increase their fears by interposing a volume of outstanding currency as a prior lien on the bank's assets. Indeed it can readily be believed that many banks would decline to avail themselves of such a law if passed, but would prefer to strengthen their hold on their depositors and take their chance of greater profit on increased deposits than on coining their credit at the hazard of withdrawals.

Not only will the compulsory increase in reserves as the commodity price-level rises operate to retard the rise, by the action of the banks in restricting loans to build up their reserves, but it will be of valuable public service in turning the attention of bankers to the conditions of abnormal credit. Banks are tempted to increase their circulation rather by the lending value than the buying value of cash. How liable bankers are to be carried away by the spirit of the times is shown by so many of them urging the "credit currency" scheme in the midst of recent extraordinary conditions. With the borrowing demand for cash represented by 7 per cent. and the buying demand represented by 13 1-2 cent cotton, 25 cent copper and labor hardly to be bought for money, there were bankers eager to pour their own credit into the swollen sea, leaving thought of the future to whom? Bankers are not immune from losing their heads so but that the community better provide statutory safeguards rather than risk the dire calamity of a bankers' panic.

There should also be an amendment to our coinage laws by which 1 per cent. seigniorage shall be charged on gold coinage when index-numbers reach a point equivalent to Bradstreet's 9.0100; 2 per

cent. when equivalent to 9.0200; 3 per cent. when equivalent to 9.0300, and so on. When the United States takes this step, other nations will likely do the same, making the benefit world-wide, gold coin assuming a premium over gold bullion during periods of very high price-levels and abnormal credit inflation, and the bullion standing in reserve to revive the commodity markets whenever business reaction starts in. If other nations should not take this step, of course there would be a tendency to ship gold bullion (never gold coin) instead of wheat, cotton and other exports, but this tendency would cure itself, while curing our own troubles. The goods left at home would check rising prices,[14] the absence of them abroad would raise prices abroad, putting us again in position to export. This would tend to stabilize our own price-level, leaving other nations to follow our example when they shall have tired of letting human greed run its natural course.

True this is radical, but who will make himself responsible that the world is yet risen from the dark ages as regards the measure of value? The business world would not tolerate a yardstick which from 36 inches on Jan. 1, 1892, stretched to 51 inches on July 1, 1896, or from 36 inches on July 1, 1896 shrunk to 22 inches on March 1, 1907. Yet such have been the extraordinary variations under which business has been done, not with respect to the yardstick, which measures only cloth, plastering, etc., but with respect to the "measure of value and common denominator of exchange," controlling all business transactions of every description whatever, either for commodities or services. How can substantial and enduring commercial and industrial institutions be erected upon such shifting foundations, and who shall say but that the present gold inflation, instead of being permitted to spread and expand until the whole commercial fabric explodes into thin air, leaving industry prostrate, may yet be, by virtue of lessons learned in the past, bound down and harnessed to the chariot of uninterruptable human industry, every upward spurt of speculation checked by the virtual suspension of gold coinage, every reaction promptly revived and stimulated by reopening the mints, Mr. Bryce's inevitable "oscillations in trade" thus limited within a negligible movement, while merchants

14 Another way to state this is that: the price of wheat is fixed in gold bullion in the markets of the world; gold dollars will command a premium over gold bullion; gold dollars will buy more wheat than gold bullion; the price of wheat in gold dollars will be lower than in gold bullion.

and manufacturers, strong in their reliance upon an enduring price-level, become able to give permanent employment to permanent crews, home-dwellers, *located* upon the face of the earth, advancing in civilization and identifying themselves with the institutions, lay and spiritual, of the human community?[15]

PORTLAND, MAINE, *October*, 1907.

[15] In order that prosperity may not swell up and burst, and that "hard times" conditions may be nipped in the bud instead of lasting for years, we need the following measures:

(1) Publish statistics giving accumulations of goods in retail stocks.

(2) Administer the powers of the Independent Treasury to stabilize the commodity price-level rather than the loaning value of money.

(3) Mobilize the resources of the Independent Treasury by permitting deposits without collateral security, but at interest, in banks that are strong and have high reserves, (letting the imprudent banks find help, if any, from the strong banks, at a price), regulating the volume of the deposits not arbitrarily but by raising or lowering the Treasury interest rate.

(4) Create interconvertible currency consols and consol currency, the exchange rates, *i. e.*, the selling and buying prices for the consols, (sold for all kinds of money but bought only with consol currency, and this currency not issued in any other way) changeable by the Secretary of the Treasury from time to time as required to stabilize trade.

(5) A *pari passu* increase in bank reserves, starting when the commodity price-level becomes high, and increasing as long as the price-level rises.

(6) Seigniorage on gold coinage, starting when the commodity price-level is very high, and rising *pari passu* as long as the price-level rises.